

(1) Subsection (f) of section 672 (relating to special rule where grantor is foreign person) is amended to read as follows:

"(f) SUBPART NOT TO RESULT IN FOREIGN OWNERSHIP.

"(1) IN GENERAL.—Notwithstanding any other provision of this subpart, this subpart shall apply only to the extent such application results in an amount (if any) being currently taken into account (directly or through 1 or more entities) under this chapter in computing the income of a citizen or resident of the United States or a domestic corporation.

"(2) EXCEPTIONS.—

"(A) CERTAIN REVOCABLE AND IRREVOCABLE TRUSTS.—

Paragraph (1) shall not apply to any portion of a trust if—

"(i) the power to revest absolutely in the grantor title to the trust property to which such portion is attributable is exercisable solely by the grantor without the approval or consent of any other person or with the consent of a related or subordinate party who is subservient to the grantor, or

"(ii) the only amounts distributable from such portion (whether income or corpus) during the lifetime of the grantor are amounts distributable to the grantor or the spouse of the grantor.

"(B) COMPENSATORY TRUSTS.—Except as provided in regulations, paragraph (1) shall not apply to any portion of a trust distributions from which are taxable as compensation for services rendered.

"(3) SPECIAL RULES.—Except as otherwise provided in regulations prescribed by the Secretary—

"(A) a controlled foreign corporation (as defined in section 957) shall be treated as a domestic corporation for purposes of paragraph (1), and

"(B) paragraph (1) shall not apply for purposes of applying section 1296.

"(4) RECHARACTERIZATION OF PURPORTED GIFTS.—In the case of any transfer directly or indirectly from a partnership or foreign corporation which the transferee treats as a gift or bequest, the Secretary may recharacterize

such transfer
in such circumstances as the Secretary
determines to be appropriate to prevent the avoidance of the purposes
of this subsection.

"(5) SPECIAL RULE WHERE GRANTOR **is**
FOREIGN PERSON. **—**If—

"(A) but for this subsection, a foreign person would
be treated as the owner of any portion of a trust, and

"(B) such trust has a beneficiary who is a United
States person.

such beneficiary shall be treated as the grantor of
such portion
to the extent such beneficiary has made (directly
or indirectly)
transfers of property (other than in a sale for full
and adequate
consideration) to such foreign person. For
purposes of the
preceding sentence, any gift shall not be taken
into account
to the extent such gift would be excluded from
taxable gifts
under section 2503(b).

"(6) REGULATIONS. **—**The Secretary shall
prescribe such
regulations as may be necessary or appropriate
to carry out